

Reform of Incentive Mechanisms and Innovative Paths for State-Owned Enterprises in the New Era

Huan Wang

SINOPEC Catalyst Co., Ltd., Beijing, China

Abstract: State-owned enterprises (SOEs) are an important pillar of the national economy and play an irreplaceable role in China's economic and social development. Strengthening the reform and innovation of SOE incentive mechanisms is an important measure to promote the modernization of SOE governance systems and governance capabilities. It is of great significance for improving corporate governance structures, promoting entrepreneurial spirit, fully mobilizing talent enthusiasm, and enhancing core competitiveness. Based on this, this paper conducts research from the perspective of SOE incentive mechanisms, adopting a problem-oriented research method. Firstly, it clarifies the importance and new requirements for advancing the reform and innovation of SOE incentive mechanisms in the new era; secondly, it analyzes the bottlenecks and problems existing in current SOE incentive mechanisms; finally, it studies the reform and innovation paths of SOE incentive mechanisms in the new era combined with practical situations. Through this research, the paper aims to provide some ideas and explorations to further deepen the reform and innovation of SOE incentive mechanisms and support the high-quality development of enterprises.

Keywords: incentive mechanism; state-owned enterprises; bottleneck problems; reform and innovation paths

1. Introduction

State-owned enterprises are the main carriers of the public ownership economy and bear important responsibilities and tasks in advancing Chinese-style modernization and realizing the great rejuvenation of the Chinese nation. Promoting the reform and innovation of SOE incentive mechanisms is a key focus and critical link of SOE reform in the new period. It holds important value and significance for further improving corporate governance bodies, effectively stimulating endogenous development vitality, and enhancing core competitiveness.

Currently, many large SOEs in China actively explore innovative incentive mechanism practices based on their realities. For example, China Unicom widely promotes employee stock ownership to stimulate enterprise development vitality; China Electronics Technology Group implements the "Science and Technology Innovation Board + equity incentives" to accelerate the transformation of scientific research achievements, achieving positive results. However, we must also see that many SOEs still have some shortcomings and deficiencies in incentive mechanism construction, reflected in model rigidity, mechanism ossification, short-term tendencies, and insufficient spiritual incentives. In the new period, further research on reform and innovation measures of SOE incentive mechanisms has become a hot topic within the industry.

2. The Significance of Advancing the Reform and Innovation of State-Owned Enterprise Incentive Mechanisms in the New Era

2.1 Stimulating Enterprises' Innovative Development Vitality

China has undergone a 30-year development process in promoting state-owned reform. Through continuous exploration, various enterprise systems and mechanisms have been increasingly optimized and improved, and corporate governance bodies have been constantly perfected, effectively stimulating enterprise vitality. However, in terms of incentive mechanism construction, limited by the state-owned nature, compared to some private enterprises, bold breakthroughs and innovations are still insufficient. Some enterprises still exhibit the egalitarian "iron rice bowl" phenomenon, lacking endogenous motivation and innovative vitality. Further advancing the reform and innovation of enterprise incentive mechanisms through measures such as equity incentives, linking individual income with performance, and improving assessment methods can better align employees' labor achievements with their returns. This helps further stimulate the enthusiasm and initiative of employees, especially key and technical talents, release innovative potential, and create an organizational atmosphere of dedication, entrepreneurship, and enterprising spirit.

2.2 Enhancing the Market Competitiveness of State-Owned Enterprises

In today's era where science and technology are the primary productive forces, promoting enterprise development hinges on technological innovation, with the core being the stimulation of talent innovation vitality. Further advancing the reform and innovation of SOE mechanisms in the new period helps enterprises attract more outstanding talents, retain their core talents, and better utilize talents, building a highland for talent development. By establishing precise incentive mechanisms and long-term incentive mechanisms, enterprises will continue investing in technological R&D, improve internal management levels, increase work efficiency, optimize resource allocation efficiency, and enhance market competitiveness and sustainable development capability. Finally, perfecting incentive and assessment mechanisms can also significantly strengthen enterprise cohesion and centripetal force, uniting all levels of the enterprise as one, and improving adaptability and risk resistance to major external environmental changes.

2.3 Improving the Modern Enterprise System with Chinese Characteristics

Incentive mechanisms are one of the core components of the modern enterprise system and an important aspect of deepening SOE reform. The “Action Plan for Deepening and Enhancing SOE Reform (2023–2025)” clearly states the establishment of a new type of business responsibility system, promoting market-oriented operation of SOEs, optimizing the income distribution system of SOEs, strengthening the positive role of institutional incentives, and stimulating innovation and creativity vitality in SOEs. Deepening the reform and innovation of SOE incentive mechanisms through measures such as introducing professional managers, reforming the market-oriented salary system, and promoting the normative implementation of medium- and long-term incentives on a wider scale helps attract more outstanding talents to participate in SOE governance, fully exert the main role of talents in enterprises, stimulate enterprise vitality, and improve overall enterprise management levels.

2.4 Serving Major National Development Strategies

State-owned enterprises are the backbone of the country and bear important missions in major scientific and technological innovations, overcoming “bottleneck” technologies, and ensuring the security of industrial and supply chains. Further reforming and innovating incentive mechanisms helps guide a wide range of cadres and employees to focus on national strategic goals, clarify work responsibilities and tasks, fully leverage the institutional advantage of concentrating efforts on major tasks, promote technological self-reliance and self-strengthening, build a modern industrial system, assist in the transformation and upgrading of traditional industries, promote regional coordinated development, advance rural revitalization and common prosperity, and ensure the safe, stable, harmonious, and orderly development of the economy and society.

3. New Requirements for the Reform and Innovation of State-Owned Enterprise Incentive Mechanisms in the New Era

3.1 Adhering to and Strengthening the Party's Comprehensive Leadership as the Fundamental Principle

The Party's leadership is the glorious tradition of state-owned enterprises, the “root” and “soul” of SOEs, and their greatest political advantage. In the new era, further advancing the construction of SOE incentive mechanisms must firmly uphold and strengthen the Party's comprehensive leadership, adhere to the fundamental principle of the Party managing talent, and implement the Party's leadership throughout the entire process of formulating, improving, and executing incentive mechanisms. It must be integrated into all aspects of corporate governance to fully leverage the Party's major role in setting direction, managing the overall situation, and ensuring implementation, as well as its great advantages in ideological guidance and cohesion. This ensures that reform and innovation comply with the national major policies and economic and social development requirements, align with regional development strategies and the goal of high-quality enterprise development, and meet the common interests of all cadres and employees.

3.2 Guided by the Deep Implementation of the Concept that “Talent is the Primary Resource”

The reform and innovation of SOE incentive mechanisms must firmly establish the concept that “talent is the primary resource,” insist on comprehensively attracting, retaining, and utilizing talent, place human resource development in the optimal position, and start from the overall enterprise development situation. Adhering to goal-orientation, problem-orientation, and system-orientation, it should further emancipate the mind and continuously reform and innovate talent “selection, cultivation, retention, and utilization” incentive mechanisms. Market-oriented personnel mechanisms such as

open recruitment, competitive appointment, and elimination of the lowest performers should be adopted to build platforms for talents to stand out and demonstrate their abilities. A sound talent incentive system should be established and improved, innovation and creativity incentives strengthened, and rewards for employees' educational and skill improvements provided to fully stimulate talent vitality.

3.3 Taking the Improvement of Market-Oriented Operation and Management Mechanisms as the Fundamental Task

Promoting the reform and innovation of SOE incentive mechanisms aims to further improve enterprise operation and management systems, build a new type of business responsibility system with Chinese characteristics, establish a more precise, flexible, and efficient income distribution mechanism, strengthen market-oriented operation, and stimulate the innovation and creativity vitality of enterprises. Therefore, reform and innovation of incentive mechanisms must thoroughly break the "iron rice bowl" and "iron chair" systems, explore building a professional manager system, remove administrative and identity constraints, implement contractual management, and establish rigid assessment systems. Market-oriented salary systems and incentive methods should be constructed, performance orientation strengthened, and medium- and long-term incentive mechanisms established to ensure salary flexibility and personnel mobility, promoting a positive transformation of enterprise management from "make me work" to "I want to work," achieving unity of rights, responsibilities, and interests.

3.4 Taking the Enhancement of Enterprise Core Competitiveness as the Aim and Purpose

The ultimate aim and purpose of promoting the reform and innovation of SOE incentive mechanisms is to enhance enterprise core competitiveness and serve the overall goal of high-quality enterprise development. Therefore, enterprises should innovate systems and mechanisms to guide resources, policies, and funds to key positions, core talents, and outstanding contributors. Centered on improving technological innovation capability, value creation capability, and sustainable development capability, enterprises should improve and perfect incentive systems, create a good atmosphere of respecting knowledge, talent, and creativity, stimulate endogenous development momentum, build talent-driven core competitive advantages, and strengthen enterprises' comprehensive market competitiveness.

4. Bottlenecks and Problems in the Current Incentive Mechanisms of State-Owned Enterprises

4.1 Deep Influence of Traditional Institutional Mechanisms

Due to their identity and positioning, state-owned enterprises have long exhibited administrative tendencies. Although they have undergone multiple rounds of reform, these tendencies have not been completely eliminated. In SOEs, promotion and salary increases for management and employees are often linked to administrative rank, years of service, and other factors unrelated to work ability or market contribution. The lack of openness and transparency has led to widespread seniority-based promotion, making it difficult to attract and retain market-oriented talents, especially high-end talents. Additionally, under traditional management models, the enterprise salary structure is relatively rigid, with a high proportion of fixed wages, insufficient performance-based pay and project bonuses, inadequate market-oriented incentives, and a lack of differentiation and competitiveness.

4.2 Biased Incentive Orientation and Single Methods

In the current SOE incentive mechanisms, the egalitarian "iron rice bowl" mentality has not been completely eradicated, and short-term orientation is still relatively common. This mainly manifests in the weak link between employee compensation and performance contribution, failing to reflect work achievements or daily performance. Income differentiation is not obvious, incentive measures are insufficient, and employee enthusiasm cannot be effectively mobilized, which easily breeds a slack attitude. Assessment indicators focus on short-term performance such as operating revenue and profit margin, with insufficient support for innovation and R&D, medium- and long-term development, risk-taking, and fault-tolerance mechanisms. Incentive measures lack precision, possibly leading to blind short-sighted behaviors such as excessive borrowing and resource waste, as well as weakening social responsibilities like stable employment and livelihood protection. Equity incentives and medium- and long-term incentive policies are restricted and rarely applied, limiting income growth for core personnel and technical backbones, which may cause talent loss.

4.3 Weakening of Spiritual Incentives and Value Identification

Before SOE reform, the emphasis was on spiritual rather than material incentives, which made it difficult to motivate personnel. After reform, some enterprises have overcorrected by excessively emphasizing material stimulation while

neglecting spiritual incentives such as self-fulfillment, sense of mission, honor recognition, and career development. Meanwhile, enterprise culture construction is insufficient, leading to distortion of the overall environment and corporate values. This results in employees lacking a sense of mission and achievement in their work, lacking identification and responsibility toward the enterprise, declining team cohesion and centripetal force, and reduced enthusiasm and morale for taking responsibility, making bold breakthroughs, and innovating.

4.4 Disconnection Between Supervision Mechanisms and Incentive Mechanisms

A scientific incentive mechanism can effectively stimulate employee enthusiasm and creativity, while a sound supervision system ensures the fair and compliant implementation of institutional mechanisms. The two complement each other and are indispensable. Their joint function guarantees healthy and stable enterprise development. However, some SOEs currently suffer from disconnection and imbalance between incentive mechanisms and supervision systems. The value of supervision systems is incomplete, internal audit work is inadequate, Party conduct and clean governance construction are insufficient, and punishment and accountability mechanisms are imperfect. This not only makes it difficult to truly stimulate enterprise vitality, causing stagnation, but may also breed rent-seeking and corruption.

5. Measures to Promote the Reform and Innovation of State-Owned Enterprise Incentive Mechanisms in the New Era

5.1 Adhere to the Market-Oriented Reform Direction and Optimize Top-Level Design

In the new era, advancing the reform of SOE incentive mechanisms must always adhere to the market-oriented reform direction and further optimize top-level design to provide a solid guarantee for institutional innovation. Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, fully implement the concepts of “people-centered” and “distribution according to work,” focus on major national development concepts, take market-orientation as the fundamental principle, enhance employees’ sense of belonging and gain, and aim to stimulate broad employee entrepreneurial vitality. Optimize the income distribution mechanism, innovate resource allocation models, drive the flow of resources and talents to key areas, and guide corporate transformation, upgrading, and high-quality development. Through institutional reform and innovation, especially strengthening KPI guidance, thoroughly eliminate administrative tendencies, break “egalitarianism” and “high-level iron rice bowls,” and attract back-office staff to actively move to frontline positions. Implement management term systems and contractual management, rigidly enforce assessment results, and realize management’s “promotion and demotion, entry and exit, increase and decrease.” Establish market-oriented salary systems based on industry characteristics, enterprise scale, and job mechanisms, and increase the proportion of performance-based pay. For core business talents, technical talents, and management talents, set competitive salary standards referring to top domestic and international enterprises to effectively enhance competitiveness and prevent talent loss.

5.2 Enrich and Expand Medium- and Long-Term Incentive Tools, Deepen Classified, Layered, and Precise Incentives

Reforming SOE incentive mechanisms should focus on enriching incentive tools and innovating incentive methods, boldly innovating to build a de-leveling and precise income distribution mechanism. Based on enterprise realities, enrich and expand medium- and long-term incentive tools to improve incentive effectiveness. Listed SOEs should widely promote equity-based incentive measures, implement stock option incentives, increase employee stock ownership proportions, and establish a combined “mandatory share-following + voluntary share-following” employee share-following mechanism. Deeply bind the interests of management, employees, and enterprises to promote the preservation and appreciation of state-owned assets. Further strengthen the income distribution system without forcibly limiting total wage ceilings, and focus on positions with strong value creation ability and high technical and business contribution rates, as well as frontline backbone, core R&D personnel, and key business talents. For key core talents, explore using contract salaries, project dividends, scientific and technological achievement transformation remuneration, and grant greater authority over technical routes and funding use to stimulate work enthusiasm. Improve the KPI assessment system by building a comprehensive system covering national strategic tasks, economic benefits, technological innovation, risk control, sustainable development, and social responsibility. Utilize technologies such as big data and artificial intelligence to precisely evaluate job value and individual performance contribution, set differentiated assessment focuses and weights, and achieve precise distribution.

5.3 Optimize Spiritual Incentive Mechanisms and Strengthen Corporate Culture Construction

Material and spiritual incentives are interdependent and both indispensable. According to Maslow’s hierarchy of needs

theory, for high-level talents, after material needs are fully met, continuous material incentives will produce diminishing marginal returns, while needs for respect and self-actualization become the individual's focus. SOEs should combine corporate culture construction to further improve incentive mechanism construction and strive to create a united, harmonious, positive, and shared atmosphere. Encourage employees to boldly innovate and tolerate non-subjective, non-self-interested mistakes in work to a certain extent. Promote the spirit of entrepreneurship, scientific spirit, and craftsmanship spirit in various ways, creating a good atmosphere of respecting labor, technology, and talents. Strengthen employee honor recognition by regularly holding commendation meetings, establishing awards such as reform and innovation awards, technological breakthrough awards, and model worker awards, publicizing widely to create an environment of striving to learn, compete, and surpass, and fostering a vigorous and positive atmosphere.

5.4 Improve and Perfect Supervision and Constraint Mechanisms to Ensure Healthy and Sustainable Enterprise Development

State-owned enterprises must always remember that they “belong to the Party” and “belong to the public.” They must continuously strengthen Party leadership, adhere to Party-building guidance, and continuously improve supervision and constraint mechanisms to form a good complementarity with incentive mechanisms, ensuring the thorough implementation of incentive mechanisms. Further improve the “three majors and one large” decision-making mechanism; all incentive mechanisms must be collectively decided by the Party committee to ensure reform and innovation always adhere to the correct direction, comply with national major policies and strategies, and align with employees' fundamental interests, preventing interest transfer and state asset loss. Strengthen the construction of the enterprise's “three meetings” to ensure shareholders' meetings, boards of directors, and boards of supervisors perform their duties legally and form checks and balances. Further enhance information disclosure mechanisms, legally and compliantly disclose management salaries and incentives, and actively accept supervision from investors, disciplinary inspection, auditing, and society. Establish and improve accountability mechanisms for SOE leaders; for behaviors causing state asset loss or major risks, hold strict accountability, and for suspected illegal acts, refer them to relevant departments for handling.

6. Conclusion

The reform and innovation of incentive mechanisms in state-owned enterprises is a complex systematic project. It must always adhere to the combination of problem-orientation, goal-orientation, and result-orientation, maintain the market-oriented reform direction, break institutional and mechanism barriers, and build market-oriented, differentiated, diversified, and long-term incentive mechanisms. At the same time, supervision and constraint must be effectively strengthened to truly achieve the close integration of major national strategies, enterprise development goals, and employee interests. This will continuously unleash the talent dividends and innovative vitality of SOEs, and help promote the high-quality development of state-owned enterprises.

References

- [1] Meng Fanhua. In-depth Analysis of the “Three Systems” Reform in SOEs with the Goal of Stimulating Endogenous Motivation [J]. *Today's Wealth*, 2025, (10): 16-18.
- [2] Xiong Wei, Feng Fan, Xie Zhujun. Research on Paths to Encourage Responsibility and Initiative of Cadres in SOEs in the New Era [J]. *Contemporary Electric Power Culture*, 2025, (01): 54-55.
- [3] Ma Xiao, Cheng Shuang. Analytical Framework for Constructing a Modern SOE Incentive Theory with Chinese Characteristics [J]. *China Leadership Science*, 2021, (04): 97-102.